

**DOCKET SECTION**

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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GENERAL INVESTIGATIVE DIVISION

**POSTAL RATE AND FEE CHANGES, 1997:**

**DOCKET NO. R97-1**

**BRIEF  
OF  
THE PARCEL SHIPPERS ASSOCIATION**

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**Dated: April 1, 1998**

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## **STATEMENT OF THE CASE AND STATEMENT OF THE PARCEL SHIPPERS ASSOCIATION**

It is the position of the Parcel Shippers Association (PSA) that the overall 10.2% parcel post rate increase proposed by the Postal Service in this proceeding is unnecessary, unwarranted, and excessive compared to the average 4% increase proposed for all other subclasses of mail.

PSA is also totally opposed to, and believes the Postal Service has failed to support with evidence, the justification and necessity for a 10 cents surcharge on Standard A parcels.

On the other hand PSA is strongly supportive of the proposed innovations in barcode discounts and in further drop shipping discounts, as well as an increase in the size limits for parcel post.

The survey conducted by PSA among its members reflects that those members are responsible for a large percentage of all parcel post volume. That survey also demonstrated a very distinct interest in the new discounts. It is also PSA's position that 100% of the cost avoidance from drop shipping should be recommended by the Commission to be passed through in the form of discounts if there is to be an acceptance of these proposals by the shipping market.

We believe it is not only unfair but it is also a mistake for the Postal Service to deny barcode discounts to Standard A parcels; this will cause the Postal Service once again to miss an opportunity to encourage mailers to become habitual users of

barcodes on all their mail, indirectly frustrating one of the Postal Service's own stated principal objectives.

We believe the record amply demonstrates that, so far as parcel shippers are concerned, there are only two competitors to provide the service they need for nonexpedited residential delivery: UPS and USPS. Because UPS is not regulated by any entity anywhere in the United States, there is no body, including the PRC, that can compel UPS to divulge what its actual rates are and the extent to which it dominates the market that it shares with the Postal Service. Nevertheless, the record seems fairly clear that UPS is the giant in this parcel shipping market and that, so far as PSA members are concerned, it behaves the way monopolists usually do: price increases whenever they want; service cuts without consultation; in other words take it or leave it. For that reason it is imperative that the Commission continue its past policies of fostering competition in the parcel market through the recommendation of innovative features that will avoid Postal Service costs and make the Postal Service more competitive, giving a true choice to the parcel shipping market.

There is no justification whatsoever for the Postal Service's departure from the average 4% increase it proposes for all other subclasses and fixing upon a 10.2% parcel post increase. This is caused almost exclusively by USPS' persistent flaunting of and its utter disregard for the Commission's consistent treatment of the Alaska nonpriority air transportation costs. Those costs, almost \$77 million, when subtracted from the attributable costs of parcel post show that parcel post's revenues are already producing 104% cost coverage without any increase in rates whatsoever. In fact, if



parcels received only the average 4% increase proposed for all other mail parcel post would produce 109% cost coverage, 5% greater than the coverage that Postal Service witnesses insisted was the correct coverage for parcels, and 2% more than the PRC recommended in R94-1.

Finally, there is absolutely no cost based justification for a 10 cent surcharge on Standard A regular for-profit parcels. The Postal Service's cost studies are flawed and based upon highly questionable discriminations between what is a parcel and what is not. Nevertheless, even accepting the Postal Service's attempts to bifurcate this single rate category (Standard A non-letters), the data demonstrate that, when the amount of revenues per piece earned by parcels, double that of flats, is taken into account, the most that can be shown as a cost/revenue differential between parcels and flats is 10 to 11 cents; moreover, in terms of meeting attributable costs, parcels in the base year were less than 5 cents short of meeting their attributable costs. And, if RIAA witness Andrew's critiques of the Postal Service's costing are correct, then in the base year Standard A parcels more than met their attributable costs. Given all that, it is unconscionable that the Postal Service would attempt to force a 10 cent surcharge on top of what will, in all probability, be very substantial rate increases, totaling together 40 to 50% for some mailers, when there is absolutely no cost based justification for doing so; nor is there any policy consideration that must be observed, bearing in mind that these two types of mail are not only in the same subclass but they are in the same rate category.

Fortunately, by everyone's admission, including that of the USPS, because of USPS' good financial fortunes, the Rate Commission will not have to impose higher rates on any subclass or service of mail in order to reduce the overall parcel post rates to an appropriate level and to reject the proposed Standard A parcel surcharge. If the Postal Rate Commission recommends that the Postal Service be granted most of the revenue that it has requested, then PSA can agree to the reasonableness of the average systemwide 4% increase in rates being applied to parcel post, even though such a 4% increase would produce cost coverage of 109%, 5% greater than the coverage that the Postal Service's own witnesses say is the appropriate amount for parcel post. On the other hand, should the Commission determine that the Postal Service does not require a revenue increase in this Test Year, or very substantially reduces the amount of revenue it would allow, then it is PSA's position that the record will not sustain any overall increase for parcel post, bearing in mind that the record will show that parcel post rates at their current level are already sufficient to meet the 104% cost coverage goal established by the Postal Service, even using what are now seen to be inflated cost estimates for the Test Year.

**I. THE POSTAL SERVICE'S PROPOSED NEW DROP SHIP SERVICES, BARCODE DISCOUNTS, DELIVERY CONFIRMATION SERVICE, AND SIZE INCREASE HAVE THE SUBSTANTIAL SUPPORT OF THE PARCEL SHIPPING MARKET, AND SHOULD BE APPROVED AS PROPOSED.**

**A. The PSA Survey Demonstrates Substantial Support For The Postal Service's New Initiatives In This Case.**

PSA conducted a survey among its members and several members of the Mail Order Association of America to gauge their response to the Postal Service's proposals.

While not a scientifically drawn sample, the survey respondents' parcels, nevertheless, constitute a very substantial percentage of all parcels delivered by USPS.

Respondents shipped 124,522,000 Standard B parcels by USPS and 127,596,000 of that type of parcel by UPS. (Tr. 24/12,947) That parcel post volume, shipped by the 35 respondents, constitutes approximately 54% of the total parcel post volume of 230 million Standard B parcels in Fiscal Year 1997. (Tr. 24/12,952)

A very substantial majority of the respondents indicated that they were either currently eligible or would take the necessary preparation steps, including hiring a consolidator, in order to qualify for the OMBC discount, the DBMC discount, the DSC discount, and the DDU discount. The more deeply the parcel would be drop shipped, the less numerous are those who would attempt to qualify; for example, only two-thirds of those responding would either qualify or attempt to for the DDU discount. (Tr. 24/12,948-50)

As to the use of delivery confirmation, while there was little interest in the manual confirmation service, almost 73% of the respondents stated that they would use the electronic confirmation service. (Tr. 24/12,950)

Almost half of the respondents did have some parcels that exceed the current 108 inch length and girth limit, and all but three (3) of those indicated that they would switch that business to USPS if the size limit were expanded. (Tr. 24/12,950-51)

**B. Although PSA Does Not Ask For Discounts In Excess Of The Cost Savings Potential Of Avoiding Postal Handling And Transportation Costs, It Strongly Urges The Commission To Pass Through 100% Of The Avoided Costs Or Risk Defeating This Major Postal Service Innovation For The Package Delivery Service.**

The Commission's approval of the DBMC proposal in Docket R90-1 was a major breakthrough in the efficient operation of postal package delivery services, and almost single-handedly accounts for the renaissance in Parcel Post services. As PSA witness Jellison testified, the new SCF and DDU service proposals are a logical extension and development of the DBMC service. (Tr. 24/12,953) We ask the Commission to bear in mind that, unlike other subclasses of mail, there is relatively little existing activity in parcel post drop shipping to SFCs and DDUs. For that to occur there will have to be a substantial investment by shippers if they are to expand their drop shipping activities from twenty-one (21) BMCs where they now drop ship to hundreds of SCFs and thousands of DDUs. (Tr. 24/12,953) This was corroborated by PSA witness Zwieg, of Parcel/Direct, which has announced major plans to become consolidators for parcel shippers, enabling those shippers to meet the presorting depth necessary to qualify for the new discounts. (Tr. 25/13,447-8) As Mr. Zwieg also pointed out, volume is key to the success of this type of drop shipment. As more and more volumes can be consolidated, there is a rapid increase in the percentage of SCF destination delivery. (Tr. 25/13,448) Not only does this imply cost savings for mailers, and the Postal Service, it also will significantly improve delivery times, benefiting both the mail order industry and its customers. PSA members report that the elapsed time for delivery is

becoming an increasingly important factor to their customers, and the new drop shipment options will allow for more consistency and speed of delivery. (Tr. 24/12,955)

As witness Jellison put it, sorting and drop shipping of parcels is a different order of magnitude of the problems faced by other types of mail. The mailers must physically sort the parcels while they are filling orders, in contrast to the automated sequencing of letters and flats that occurs with mailing lists. An additional cost problem for potential shippers is that the required containerization will result in a loss of cube utilization in trucks as opposed to sacking. Mr. Jellison emphasizes that the discounts must be sufficient to make up for that additional transportation and labor cost or his members will simply not utilize these new services. (Tr. 24/12,954) And PSA witness Zwieg confirmed witness Jellison's statement, saying that he could not emphasize too strongly how important it was that the Commission not water down the proposed discounts due to a conservative approach, such as that advocated by UPS, where only 71% of the cost avoidance would be passed through. (Tr. 25/13,448)

These are not radical proposals; these kinds of drop shipping discounts have been available to other subclasses of mail for years while only DBMC has been available to Standard B mailers. This kind of parcel reform is long overdue and will merely give business parcel customers the same options as have been long provided to other business mailers.

**C. The Proposal To Provide A Barcode Discount To Standard B Parcel Shippers Is Simple Equity That Recognizes The Cost Avoidance Benefit Of Such Barcoding To The Postal Service, And The Failure To Propose The Same Discount For Standard A Parcels Is A Continuation Of Inequity.**

A possible explanation for the Postal Service's failure to propose a 4 cents discount to Standard A parcels that are barcoded and which promote similar cost avoidance for the Postal Service as does Standard B barcoded parcels, is that they believe they are already losing money on Standard A parcels because of the asserted higher costs of Standard A parcels than Standard A flats. As we will later detail in this brief, since Standard A parcels either fully cover their attributable costs, or, because the Commission may impose a surcharge to meet that coverage deficit, under either of those alternative developments there would be no case for denying a Standard A barcode discount, since under those alternatives there would be no losses on Standard A parcels, and, consequently, that basis for denying the Standard A barcode discount disappears.

In addition to this inequity, witness Jellison believes the Postal Service is missing an opportunity to maximize information capture technology. He cites as examples the fact that the standardized barcode concept USPS has worked on with the industry will allow mailers to include enough information in the barcode so as to provide valuable advance operational volume data to the Postal Service, and to provide to the mailers themselves the information they will need to track their packages and to reenter return orders into inventory and credit transactions with much greater efficiency. (Tr. 24/12,955) The Postal Service is failing to perfect a marketing opportunity to get its customers to think about the value of standardized barcodes and standardized

elements within those barcodes; in short, to get them into the habit of barcoding everything they send and compiling the data that this technology provides. (Tr. 24/12,956)

**D. The Postal Service's Proposed Delivery Confirmation Service Should Be Recommended Both For Parcel Post and For Priority Mail, As Proposed.**

We cannot imagine any rational argument against the parcel post delivery confirmation option that is proposed. The charges for it recover the costs of the service and only a jealous competitor could oppose this valuable service-added feature for postal customers. While we agree that there should be a charge for parcel post confirmation service, we also agree with the Postal Service that the very nature of priority mail service dictates that it should be an inherent part of that service, and not a purchased option for priority mail.

**E. The PRC Should Recommend A Pass Through of 100 Percent (100%) Of The Cost Savings From The New Drop Shipping Services.**

United Parcel Service witness Luciani urges the Commission not to pass through 100% of the cost avoidances from drop shipping. Mr. Luciani argues, for example, in the case of the DBMC worksharing program, that the uncertainties surrounding those savings had not diminished since R90-1, in part, he says, because the Postal Service continues to use USPS witness Acheson's "top-down" methodology from the R90-1 proceeding in order to calculate cost avoidance. (Tr. 26/14,379-80) When asked, Mr. Luciani responded that he was not aware that the Postal Rate Commission itself had found that Mr. Acheson's so-called "top-down" methodology for calculating first class presort understated rather than overstated the cost savings due to first class presort,

and substituted its own method of calculating the cost avoidance for presort. (Tr. 26/14,451) The Acheson "top-down" methodology also understates the cost avoidance of DBMC worksharing.

Another factor the Commission should weigh in deciding the appropriate pass through is that, although it may appear that there are actually rate decreases for many of the candidate parcels, in fact, as UPS witness Luciani had to concede, the additional costs to mailers for labor and transportation in order to be eligible for the new drop shipping discounts could transform what appeared to be a reduced rate into an actual increase in the costs of shipping the parcel. (Tr. 26/14,458) Mr. Luciani tried to qualify that admission, however, by arguing that it was unlikely that a mailer would incur, for example, a 30 cents cost increase in order to obtain a 20 cents rate reduction. But, when asked whether that might not be a prudent course of action if the alternative to taking advantage of the new drop shipping discount proposals was to perhaps pay as much as a 20 cents increase in rates for not drop shipping, Mr. Luciani agreed. (Tr. 26/14,458-59) And, Mr. Luciani had to admit that it was not a farfetched circumstance that a particular mailer would have to engage in the discount program in order to avoid a 20 cents increase even though it cost him 30 cents extra in order to qualify for a 20 cents discount. (Tr. 26/14,459)

As another reason for limiting the pass through of cost savings, UPS witness Luciani also maintained, for example, that 96% of the discounts to be granted to Standard B parcels for barcoding were already being barcoded, citing to Postal Service witness Mayes' workpapers and citing as a source Library Reference H-163. (Tr.



26/14,459) Mr. Luciani admitted that he had no other basis to support that contention other than the Library Reference. (Tr. 26/14,461) That Library Reference Survey contains what PSA witness Jellison says he and his members believe are ridiculous results. It is a study that has not been vouched for by any witness in this proceeding; its methodology neither explained nor defended in the record of this proceeding; and it might, in fact, not have been admissible as survey testimony even if someone had sought to introduce it in evidence. (See witness Jellison's testimony at Tr. 24/12,952-3.) The record is now closed in this proceeding and this Library Reference upon which Mr. Luciani relies is not in evidence, and, therefore, cannot be relied upon as support for any contentions about the degree of barcoding, presorting, and drop shipping that may or may not exist in the parcel shipping community at the present time. The only data in evidence which may have some use for the Commission are the results of the PSA survey which were introduced into evidence.

**F. The Postal Service's Proposed Increase In The Standard B Parcel Size From 108 Inches To 130 Inches Is A Logical Move Which Will Serve USPS Customers Well.**

The size limits for all other carriers are at least 130 inches and it makes no sense for the Postal Service to so differentiate itself from the rest of the market. There are also operational advantages that will accrue both to mailers and the Postal Service. It makes no sense for parcel shippers to have to segregate that portion of their parcel post mail in excess of 108 inches and find a different means of delivery. It will also, obviously, increase the amount of volume that mailers will have available to fill out otherwise marginal vans for direct shipments and drop points deeper into the USPS delivery system. (Tr. 24/12,949)

PSA regrets the Postal Service proposed limitation on what percentage of a mailing may exceed the 108 inch limit, since it does not fully meet our members' needs. (Tr. 24/12,959) Nevertheless, we do support the Postal Service's proposal because we believe that, if it is recommended and adopted, the experience the Postal Service has with this expanded limit will lead them to abandon the currently proposed restriction.

**II. AN OVERRIDING POLICY CONSIDERATION THAT SHOULD GOVERN THE PRC'S PARCEL POST RECOMMENDATIONS, AS IT HAS IN THE PAST, IS THE NECESSITY TO MAINTAIN COMPETITION IN A MARKET WHERE, FOR ALL PRACTICAL PURPOSES, THERE IS ONLY UPS AND USPS THAT ARE CAPABLE OF DELIVERING NON-EXPEDITED PARCELS ON A NATIONWIDE BASIS TO RESIDENCES.**

**A. There Are Only Two Options Available For The Delivery Of Parcels To Residences And That Is UPS And USPS. Moreover, There Is Every Evidence That UPS Is So Dominant In This Market That It Is Able to Dictate The Terms Under Which Service Will Be Provided And The Prices That The Customers Will Be Expected To Pay. (Tr. 24/12,974)**

It was Mr. Jellison's testimony that, based upon his own substantial experience in postal matters over more than forty years, and that of his members, UPS has a position of market dominance in the transportation of parcels. He defined "market dominance" to mean that there was a lack of competitive forces within the residential delivery market that could have an influence on the moderation of UPS's service offerings, conditions, and prices. He cited examples of UPS' ability to dictate to the market: policies on rural delivery; the arbitrary bifurcation of the market into commercial and residential with a surcharge imposed on the residential area; the frequency and the amount of the increases imposed on residential deliveries; and the general conviction of his members that UPS can and does make changes without any consideration given to

the impact of those changes on their customers, in part, because there is a lack of competition in the market and a lack of regulation of UPS. (Tr. 24/12,986) Furthermore, Mr. Jellison stated that it is not relevant whether over the long run a third carrier could become a significant factor in the market because he was convinced that it would take a considerable length of time for any other entity to even make a commitment to residential delivery and then to be able to replicate either the delivery structure of UPS or USPS to become a competitive factor. (Tr. 24/12,987)

UPS makes various arguments that the Commission cannot simply look at the one pound and over residential delivery market because that is not a distinctive market. They from time to time point to the fact that the Postal Service delivers more Standard A parcels than it does Standard B parcels. (Tr. 25/13,616) However, no one knows UPS' volume of Standard A type parcels (that is, those under one pound) and UPS has refused to supply such information. Consequently, it is not possible for the Commission to make a judgment as to the relative competitive forces for those type of parcels. Moreover, it is clearly the case that, in the minds of PSA members, the residential delivery market is a distinct market, and is the market where there is no competition other than the two competitors. In the commercial address delivery market there is at least one more national competitor; and there are, of course, a plethora of expedited delivery companies. The PSA members, however, made clear that what they need are transportation companies that will deliver on a nonexpedited basis to residences; and there are clearly only two of those on a national basis.

UPS witness Henderson maintained that mailers have readily available alternatives such as FedEx, Airborne, and Emery, as well as the consolidation services of CTC and others. (Tr. 25/13,616) Yet, UPS witness Henderson was unable to identify ground transportation carriers to residences other than UPS and USPS. Nor was he able to affirm that his views of the availability of alternatives was corroborated by any actual shippers, although he does cite Avon as a shipper that is able to utilize residential delivery services other than UPS and USPS. (Tr. 25/13,650) And yet he was unable to state whether he knew at all the kind of service Avon required; nor was he aware of the fact that at one time Avon was UPS' single biggest customer; nor did he know whether it was or was not the case that Avon required "expedited pinpoint service," for example. (Tr. 25/13,651) Moreover, Mr. Henderson had to concede that neither CTC nor the Association of Alternative Postal Systems, two of the cited alternatives, were themselves "mailers," in the sense of being the person who originated the shipment of the parcel to the customer. (Tr. 25/13,652) In fact, CTC and the Association of Alternative Postal Systems are themselves in the business of transportation, although not end-to-end delivery.

UPS witness Henderson also referenced the testimony of Mr. Clark of CTC as evidence of additional competition. In fact, Mr. Clark's testimony was that during the entire year ". . . on an ongoing basis, we are using seven carriers, and you know, this is a relatively small percentage of our business. I would say less than five, three to five percent." (Tr. 20/10,233) And finally Mr. Henderson did have to concede he had no reason to disbelieve Mr. Clark's testimony that these local carriers he was using in fact

accounted for only 3 to 5% of their business and that the Postal Service delivered all the rest. (Tr. 25/13,653-4) And Mr. Henderson conceded that he was familiar with Mr. Jellison's testimony in this proceeding asserting that his members predominantly used either UPS or USPS, and that there was no other reliable deliverer of small parcels, and he agreed that he had no reason to disbelieve Mr. Jellison. (Tr. 25/13,655)

In response to questions about UPS' increasing share of the parcel market, Mr. Henderson responded that, if it were the case that the UPS market had expanded, and in spite of annual UPS rate increases, then he had to agree with Chairman Gleiman that he would tend to conclude that the Postal Service was not an effective competitor. (Tr. 25/13,682-3) On the other hand, Mr. Henderson also admitted that, if the actual prices that UPS really charges its customers were less than Parcel Post, then that would be another explanation for the phenomena of the increasing dominance of UPS in the market rather than the inefficiency of the Postal Service. (Tr. 25/13,686-7) No one outside UPS and the customer knows what UPS charges; that is information which the Postal Rate Commission refused to compel UPS to supply for this record. And it is important to point out that the witness conceded that as far as he knew UPS rates could be less than the Postal Service's parcel post rates. (Tr. 25/13,687) He said he had no way of knowing one way or the other.

There is further evidence that there are only two national carriers in the results of the PSA survey, which shows that the Postal Service and UPS delivered 91% of all parcels one pound and over. The other 9% were predominantly accounted for by one

shipper, Avon. (Tr. 25/12,948; 13,063; and 13,072-73) UPS failed to establish the nature of those shipments and what Avon's particular transportation needs might be.

**B. It Is Not Possible, Based On The Evidence In This Record, To Make A Comparison Of Standard B Parcel Post Rates, Either Currently Or As Proposed, And United Parcel Service Rates.**

As witness Jellison points out, and has been often the subject of testimony in PRC proceedings, it is not possible to make a direct comparison of the parcel post rate schedule and the UPS rate schedule, because a very substantial number of major parcel shippers using UPS have secret contract rates that are substantially less than the published tariff, and no shipper can demand to receive even the published rate. Information as to the nature and size of these contract rates was requested from UPS, but they declined to supply it and the Commission refused to compel production. PSA does not assert that the Commission's ruling was incorrect, but it is difficult for the Commission to apply all of the statutory criteria for fixing parcel rates when it is ignorant of the state of the competitive market for parcels. It is equally clear that the Commission can pay no attention to nor give any credence to the published UPS tariff which was supplied to the Commission because that tariff is in no way binding upon UPS under the law. No shipper has a right to ship a single parcel at the rates published in the UPS tariff. It is a meaningless document, and, because UPS has declined to supply any information to the Commission as to what it actually does charge, not only for its regular service, but for its contract big ticket customers, the Commission has nothing to compare proposed parcel post rates with.

In addition to the potentially disadvantageous rate comparison with UPS, PSA witness Jellison also itemized a number of other problems that shippers have in utilizing

United States parcel post service, problems which translate into real costs to shippers. Even if UPS' actual rates are slightly higher, in given instances, those problems could effectively negate that difference and make the Postal Service more expensive to use than UPS. Those various difficulties of using UPS are itemized in the record. (Tr. 24/12,957-8)

We are not arguing that the Commission should, in effect, reward these Postal Service inadequacies by dictating parcel rates lower than would otherwise prevail; rather, we do argue that it is of paramount importance, and the Commission has recognized this in the past, that the Commission's recommended rates and policies do foster competition in the parcel delivery market. Consequently, to the extent that it is more difficult and costly to do business with the Postal Service, the price becomes a more important factor to allow the Postal Service to maintain some level of competition with UPS in this market. Moreover, we suggest that fostering this national policy of competition is more important to the national economy and welfare than the individual parcel fortunes of either UPS or USPS.

**III. THE PROPOSED 10.2% PARCEL POST INCREASE IS EXCESSIVE, UNNECESSARY TO MEET THE POSTAL SERVICE'S OWN STATED COVERAGE GOALS, WILL MAKE PARCEL POST LESS COMPETITIVE, AND IS UNFAIR, VISITING 20 TO 30% INCREASES ON MANY USERS, WHILE ASKING ALL OTHER MAILERS TO INCREASE THEIR RATES ON AVERAGE SLIGHTLY IN EXCESS OF 4%.**

**A. The Proposed Coverage For Parcel Post Of 104% Is Reasonable Under The Criterion Of The Act.**

Postal Service witness O'Hara stated in absolute terms that the appropriate coverage for parcel post was 104% (USPS T-30, page 37). In fact, Mr. O'Hara averred that if the attributable and incremental costs had been less than they were, he would

have proposed the system-wide average 4% increase for parcel post, rather than the 10.2% overall increase that he believed was necessary in order to meet the target coverage of 104%. (Tr. 2/478-9) He asserted again that, had he been able to do so, the increases he proposed would be "much lower than the 10.2%." (Tr. 2/481)

**B. Once Again The Postal Service Has Defied the Commission's Consistent Rulings And Has Attributed The Nonpriority Alaska Air Costs To Parcel Post.**

The Commission has repeatedly held that the nonpriority Alaska air costs are not to be attributed to parcel post, but rather are to be treated as institutional costs. The Postal Service has offered absolutely no explanation nor justification for its refusal to comply with the Commission's ruling on this issue. (Tr. 24/12,961) In fact, it is hard to find anyone in the Postal Service who will admit that they were responsible for disregarding the Commission's decisions on this point. USPS witness Mayes, the designer of parcel post rates, claimed that it was not her decision to reject the Commission's treatment of Alaska air costs. Rather, she stated that it was USPS witness Patelunas who did that. (Tr. 8/3265) And yet, there is not one word uttered in witness Patelunas' testimony that attempts to explain or to justify his decision to attribute those costs, if indeed he is the one who made it.

Eliminating the intra-Alaska nonpreferential air transportation costs, and utilizing the Commission's methodology, brings about a reduction of \$75,609,000 in parcel post attributable TYAR costs. (The source for this number can be found in Attachment 1 to the Postal Service Response to PSA/USPS-1.) According to Postal Service Exhibit USPS-30B, line 29, the test year after rate revenue for parcel post is \$782,916,000. That same Exhibit states that parcel post TYAR costs are \$753,327,000. If those costs



are reduced by the \$75,609,000 of intra-Alaska nonpreferential air costs, in accordance with PRC methodology, then that produces a TYAR parcel post cost of only \$677,718,000. Thus, the Postal Service's proposed overall 10.2% rate increase for parcel post yields a cost coverage of 115.52%, rather than the 104% that USPS witness O'Hara insisted was the appropriate coverage for parcel post. The calculations for these numbers can be found in the Transcript at 24/12,962.

**C. With No Rate Increases At All, The Current Parcel Post Rates Would Have Produced The 104% Cost Coverage Which Witness O'Hara Has Proposed And Insists Is The Appropriate Parcel Post Coverage.**

As just pointed out, TYAR parcel post attributable costs using established PRC principles, are \$677,718,000. Coverage of 104% for parcel post requires revenues of only \$704,827,000, or revenues that are \$78,089,000 less than the revenue yielded by the Service's 10.2% increase. In other words, a 10.2% reduction in the amount of revenue produced would still yield the desired 104% coverage. If there is a zero increase in the overall rates for parcel post, then TYAR revenues would equal \$710,450,000 which, with TYAR costs of \$677,718,000 would produce 104.8% coverage. (Tr. 24/12,962-3)

It might be argued that the Postal Service would have proposed more than 104% cost coverage had they realized that such coverage could be obtained with no increase at all. Yet, USPS witness O'Hara was asked repeatedly whether, had he been able, he would have proposed no more than the systemwide average 4% increase for parcel post, and he insisted that that would have been the case had costs permitted it. (Tr. 2/479) What would be the result for parcel post had the Postal Service proposed the

average 4% increase it proposed for all other subclasses? A 4% increase in rates would produce revenues after rates of \$738,868,000 (assuming no volume changes). After rates revenues of that amount would produce cost coverage of 109%. (\$738,868,000 of revenue divided by \$677,718,000 of costs TYAR. Tr. 24/12,964) If the PRC does recommend overall rate increases of 4%, then it should not recommend parcel post increases of any greater amount, given the fact that even as little as a 4% increase for parcel post would yield 109% coverage, 5% higher coverage than what USPS witness O'Hara stated was the appropriate coverage for parcel post (Tr. 24/12,964), and 2% higher than the PRC recommended coverage in R94-1.

The following chart makes clear that parcel post is meeting its cost coverage targets with zero increase, and exceeds it with a 4% increase.

**Parcel Post Cost Coverages At 10.2%,  
4%, And Zero% Increases Based On  
USPS TYAR Costs (Less Alaska Air) And Revenues**

USPS TYAR PARCEL POST COSTS	\$753,327,000
Portion of Intra-Alaska Non-Priority Air Costs NOT Attributed By PRC Decisions	<u>\$ 75,609,000</u>
NET USPS TYAR PARCEL POST COSTS	\$677,718,000
USPS TYAR PARCEL POST REVENUES (10.2% INCREASE)	\$782,916,000
Parcel Post Coverage at 10.2% Increase (\$782,916,000 ÷ \$677,718,000)	115.5%
USPS TYAR PARCEL POST REVENUES At Zero Increase in Rates (\$782,916,000 less the 10.2% Increase)	\$710,450,000
Parcel Post Coverage at Zero % Increase (\$710,450,000 ÷ \$677,718,000)	104.8%
USPS TYAR PARCEL POST REVENUES at 4% increase in rates (\$710,450,000 × 104%)	\$738,868,000
Parcel Post Coverage at 4% increase (\$738,868,000 ÷ \$677,718,000)	109%

We strongly urge the Commission to consider very carefully the competitive position of parcel post and the impact on competition that the Postal Service's proposed 20 to 30% increases will have, particularly in light of the fact that overall rates need to

be increased for all classes of mail, if at all, only 4% using the Postal Service's own projections. (Tr. 24/12,964)

**D. Low Coverage For Parcel Post Is Dictated Both By Competitive Factors And By The Value Of Service Of Parcel Post.**

UPS witness Henderson, who proposes higher parcel post rates, had to concede that, if UPS parcel post type volumes shipped by ground had increased radically in comparison to parcel post type volumes, that would indicate a low value of service for parcel post. (Tr. 25/13,660) Moreover, he did agree that, since he proposes that more costs be attributed than the Postal Service does, and therefore there is a smaller institutional cost pool, it is necessary then that for each subclass there would be less coverage than that proposed by the Postal Service. (Tr. 25/13,646) Thus, he conceded that coverage for parcel post under his cost attribution scheme would only be 102.8% rather than the 103.9% coverage proposed by the Postal Service. (Tr. 25/13,646)

UPS witness Henderson also conceded that his Exhibit T-3C (Tr. 25/13,666) shows that, if the \$75.6 million of intra-Alaska nonpreferential air costs are subtracted from his attribution of parcel post costs, then one finds that the average cost per piece for parcel post is \$2.91, and, moreover, without any increase at all in parcel post rates, each piece of parcel post on average would have produced a 14 cents per piece surplus because those average revenues at \$3.05 a piece are 14 cents more per piece than the \$2.91 resulting average attributable costs. (Tr. 25/13,666-8)

Even UPS did not propose coverage for parcel post of more than 107%, the coverage approved by the PRC in R94-1. The UPS witness conceded that he did not

arrive at this coverage through an application of each of the ratemaking criteria, but rather that he found nothing to suggest that there should be a major deviation from the mark-ups that the Commission had recommended in the last case. (Tr. 25/13,688)

Several parties, and the Commission itself, have raised the issue of whether the Postal Service needs to increase rates at all in order to break even in the test year. Putting that question aside, and even using the Postal Service's original cost and revenue projections as filed, disregarding all the favorable variances that have proven to be the case subsequent to the filing of the proceeding, without the attribution of the \$75.6 million of intra-Alaska nonpriority transportation, parcel post at current rates is producing 104.8% cost coverage, and therefore there is absolutely no case to be made for an overall rate increase of any dimension for the parcel post subclass.

**IV. THE PRC SHOULD REJECT THE POSTAL SERVICE'S REQUESTED SHAPE-BASED 10 CENT SURCHARGE ON STANDARD A PARCELS BECAUSE THE SERVICE HAS FAILED TO PROVE THE CONNECTION BETWEEN SHAPE AND COST; HAS BASED THE COST DIFFERENTIAL BETWEEN STANDARD A PARCELS AND FLATS ON FAULTY DATA AND COSTING METHODOLOGY; HAS FAILED TO TAKE INTO ACCOUNT THE DEMONSTRABLY GREATER REVENUES PER PIECE RAISED BY PARCELS COMPARED TO FLATS; AND BECAUSE, EVEN USING POSTAL SERVICE DATA, NO SURCHARGE GREATER THAN 5 CENTS IS REQUIRED IN ORDER TO ALLOW STANDARD A PARCELS TO COVER THEIR ATTRIBUTABLE COSTS.**

**A. The Postal Service Has Failed To Prove That Shape Is The Cost Causing Factor That Produces Higher Attributable Costs Per Piece For Standard A Parcels Than For Standard A Flats, And Has Failed To Identify Precisely What It Is About That Shape That Causes The Higher Incurrence Of Costs.**

The Postal Service has data which appear to demonstrate that the average Standard A flat costs substantially less to process and transport than the average Standard A parcel. Standard A flats and parcels are in not only the same subclass, but

in the same rate category. The Postal Service has chosen to redress this "problem" of intra-rate category subsidy through a surcharge where the surcharge is based on the shape of the piece of mail even though there has been no demonstration that it is shape that produces the additional cost. It is most curious why the Postal Service chose to redress this "problem" at all, when Standard A parcels constitute a statistically insignificant percentage of all Standard A nonletter mail, and when there are wholesale instances of cost disparities among differing types of mail that are grouped into the same rate categories. It is even more curious that the Postal Service chose to address this so-called "inequity" when the supposed victims of this inequity have never registered a single complaint either on or off the record. (Presumably the "victims" would be the Standard A nonparcel mailers who, it is suggested, are paying a higher rate than they would otherwise be paying if Standard A parcels had a higher implicit cost coverage, and therefore were contributing more to the institutional cost burden of the subclass. (Tr. 24/12,964-5)

In the aborted 1997 parcel classification case (MC97-2), the Postal Service presented a so-called "cost study" that they claimed isolated the cost differences caused by shape because they were able to compare the costs of ECR parcels and flats, isolating for the effect of shape, since the average per piece weights for parcels and flats in the ECR subclass were roughly the same. It was therefore not an unreasonable assumption that, at least in the ECR subclass, the higher cost of parcels could be attributed to the different shape of a parcel. (Tr. 24/12,965) PSA witness Jellison testified that he could not find a single member that mails Standard A parcels at

the enhanced carrier route rate; nor was there any evidence in that proceeding or in this proceeding just who were the mailers of this infinitesimally tiny fraction of the Standard A category. This now is irrelevant, however, since the Postal Service abandoned this approach and offered no comparison of ECR flats and parcels in the current rate case, choosing instead to lump four (4) different subclasses of Standard A mail into one homogenized group where the costs and revenues of these disparate types of mail were all averaged out. Moreover, we now find that the cost differential between flats and parcels in the ECR subclass has been transmuted, in the space of a few months, from a cost differential of 20 cents in March, 1997 to a differential around 40 cents in the current proceeding in May, 1997. (Tr. 24/12,965)

USPS witness Moeller admitted that USPS witness Crum's cost study merely identified the fact that there were cost differences between Standard A flats and parcels but was unable to offer any explanation to account for these differences. Thus, even though the Postal Service calls this a 10 cents shape-based surcharge, its witness' cost study does not establish that it is shape that is the cost causing factor; rather it merely established that the costs are different for parcels and flats. (Tr. 6/3055-56; and Tr. 24/12,965)

In this proceeding the Postal Service's functional definition of a parcel is derived from the IOCS Field Operating Instruction Handbook F-45 (Tr. 5/2202). The volume count of Standard A parcels, as distinguished from flats, depends upon what is reported on the mailing statement completed by the mailer, and the mailer is directed to fill out the form in accordance with DMM C050. However, the costs of such parcels and flats

used in the Postal Service's study are derived from a sampling system that has no reference to the mailing statements filed by the mailers. (Tr. 24/12,966) Some of the sloppiness inherent in this type of cost keeping can be seen in witness Crum's response when asked how a tally clerk would record parcels that were less than three quarters inch thick but were combined with others that were more than three-quarters inch thick. His response was that he understood that the proportions were heavily weighted one way or the other and that the clerk would select the category of either a "parcel" or a "flat" to which to charge the cost depending upon what the majority of the volume in the mailing was. (Tr. 5/2,219) And witness Crum further conceded that: "An individual tally-taker certainly could have, in an instance, picked the improper shape designation. . . ." (Tr. 5/2,384) Still, witness Crum defended the accuracy of postal employees and their ability to make these distinctions between parcels and flats because they had been given 120 hours of training, at least if they were classified as mail classification specialist. (Tr. 5/2,341) Nevertheless, even USPS witness Crum had to admit that, where the dimensions were roughly close between a flat and a parcel, it would be very difficult for the unaided eye to make a correct distinction between the two. (Tr. 5/2,342)

Most significantly, there was no effort by the Postal Service to try to measure what influence weight may have on the higher recorded average per piece costs between parcels and flats, given the fact that the average parcel weighed 8 ounces implying that there were hundreds of millions of parcels that weighed more than 8 ounces. (Tr. 5/2,344-45) NDMS witness Haldi has pointed out that there was no

attempt by the Postal Service to investigate the causes of the reported cost differences, if those differences were real, concluding that the apparent differences may in fact be spurious and be nothing other than statistical outliers that are the result of an inordinately small sample size. (Tr. 20/10,317) And as witness Haldi points out there are no cost models that are used; the causative roles of shape, weight and other potentially important factors are ambiguous and the cost differentials and cost causes within the category of parcels have not been subjected to statistical studies; not to mention the problematic nature of identifying mail pieces as parcels between the RPW System and the IOCS System. Dr. Haldi also notes the fact that the parcel mail processing costs in Mr. Crum's study exhibit very wide differences, such as those found between BRR and nonprofit. (Tr. 20/10,326)

**B. RIAA Witness Andrew Has Identified Two (2) Specific Errors That Underlie The Cost Differences Between Parcels And Flats In USPS Witness Crum's Exhibits.**

According to RIAA witness Andrew, USPS witness Crum's asserted cost differential between parcels and flats could be due in part to differences in the mix of costs between MODS and non-MODS facilities. He points out that the Service has made an assumption regarding MODS and non-MODS offices. USPS witness Smith derived his system variability numbers from MODS offices and then it was applied to non-MODS offices, even though there was no evidence presented to show that this system variability was applicable to non-MODS offices, even in the aggregate. (Tr. 22/11,661) Mr. Andrew corrected for this unsupported assumption by aggregating for each subclass the non-MODS office costs and redistributing them to shape in



proportion to the number of pieces. Mr. Andrew found that this reduced the alleged cost differences between parcels and flats by 2.3 cents per piece. (Tr. 22/11,664)

Mr. Andrew believes that witness Crum has also skewed the results by utilizing the wrong density study to apply to parcels. The density study that was used in MC95-1 reflected a parcel density of 14.9 pounds per cubic foot; whereas, in this proceeding, Mr. Crum has used an average density for parcels of 8.1 pounds per cubic foot, a density estimated in a study conducted for use in the abandoned parcel classification proceeding in 1997. Mr. Andrew demonstrates that the methodology utilized in that Docket contained a built-in device that biased toward selection of samples with low densities. (Tr. 22/11,665) Since none of the Postal Service data systems measures the cubic feet of mail flows, Mr. Crum estimated the cubic feet of each shape by dividing the total weight of the shape by the average density of the shape. While the average density of letters and that of flats were in fact based on specific studies performed in MC95-1, the average density of parcels in this proceeding is based on a study conducted for MC97-2 utilizing a completely different methodology. (Tr. 22/11,665)

Faced with the very great discrepancies resulting from these two studies, Mr. Andrew performed two separate analyses on each:

- (1) He reviewed the latest research on the physics of granular materials in order to form a judgment as to whether the method of sample selection used in LR-PCR-38 unavoidably results in a bias; and

(2) He gathered data about densities from a number of mailers of large volume parcels. Based on that analyses, he concluded there was a substantial downward bias of estimated density when using the methods employed for MC97-2 to sample parcels and estimate average densities. (Tr. 22/11,669)

The average density of the parcels sampled in Mr. Andrew's own study were 29.9 pounds per cubic foot, very substantially higher than either the MC95-1 calculated density of 14.91 pounds per cubic foot or the MC97-2 density of 8.1 pounds per cubic foot. Adjusting for weight Mr. Andrew then reduced his density to 21.92 pounds per cubic foot. (Tr. 22/11,672) Faced with an adjusted 21.92 pounds per cubic foot for the parcels in his own sample, and the 8.1 pounds per cubic foot on the low side in the MC97-2 sample, Mr. Andrew chose to elect the results that reflect the mean between those two extremes, that is, the 14.9 pounds per cubic foot computed for MC95-1. (Tr. 22/11,673) When employing this density, Mr. Andrew found that the transportation and delivery service cost difference between parcels and flats was not 7.83 cents per piece, asserted by the Postal Service, but rather 3.3 cents per piece less than that, or 4.55 cents per piece. (Tr. 22/11,674) These two specific corrections identified by RIAA witness Andrew result in a reduction in the cost difference between parcels and flats of 5.6 cents per piece (2.3 cents + 3.3 cents = 5.6 cents).

**C. Even If One Uses And Accepts Only USPS Data, There Is No Cost Justification For Imposing A Surcharge On Standard A Parcels Of Any Amount Greater Than 5 Cents Per Piece.**

The Postal Service has testified that they do not know, and are unable to project, what the cost coverages either before or after rates will be in the Test Year for Standard A parcels; nor what the average cost per Standard A parcel will be in the Test Year; nor

what the average revenue per piece will be for Standard A parcels. Despite that fact, the Postal Service is asking the Commission to recommend that Standard A parcels pay a surcharge, not because they will not cover their costs in the Test Year (the Postal Service does not know that and says moreover it is irrelevant); but rather they are asking that this be done because their base year cost estimates show that parcels are considerably more costly to process than Standard A flats.

We have used UPS data to make comparisons for the base year. Utilizing the data from USPS witness Crum's Exhibit K, witness Jellison calculated the base year per piece cost, the average weight per piece, and the revenue per piece, separately, for letters, flats, and parcels, for the ECR, the regular, the nonprofit ECR, and the nonprofit regular subclasses. (Tr. 24/12,969)

Mr. Jellison's calculations of this data are shown in his Exhibit A (Tr. 24/12,971) Whereas, the Postal Service amalgamated all the costs for four (4) different subclasses of mail: ECR, nonprofit ECR, regular, and nonprofit regular, it is PSA's position that there is no justification for lumping together the costs and revenues of four (4) separate subclasses of parcels and flats in order to make a comparison; and more particularly it is unwarranted to lump them all together and of treating them as though there were no subclass distinctions among the four (4) for purposes of designing a uniform surcharge.

The members of PSA utilize commercial regular Standard A parcels and flats. For that mail the proper comparison is between costs and revenues for regular commercial Standard A flats and parcels, and any surcharge that might be justified is one that should be based on the comparison of the data for those two (2) types of mail

that are both contained in the same rate category of the same subclass, that is, in the nonletter rate category in the regular, commercial Standard A subclass. Moreover, it turns out that 88-1/2% of the total number of Standard A parcels, 868,434,000 out of a total of 982,647,000, are in the regular for-profit subclass. (Tr. 24/12,972)

This category of parcels shows that the per piece costs are 51.3 cents for parcels compared to 18.2 cents for flats, or 33.1 cents more per piece. That is not the 40 cents per piece differential the Postal Service talks about.

Mr. Jellison used the same methodology for adjusting his category of parcels to represent the deeper presorting and drop shipping of flats as used by witness Crum in his Exhibit K. However, witness Crum adjusts the parcel costs down by reducing them 7.3 cents per piece; whereas, because Mr. Jellison's was limited to only the regular commercial subclass, his calculation was that the only adjustment appropriate was a reduction of 1.4 cents per piece. Utilizing that 1.4 cents per piece reduction then he found the parcel/flat cost difference to be 31.7 cents per piece. (Tr. 24/12,972)

Mr. Jellison then proceeded to derive the average revenue per piece within that category for a flat and a parcel, finding that the per piece revenue for a flat is only 24.3 cents per piece whereas the average per piece revenue for a parcel is 46.45 cents, almost twice the amount of revenue. (Tr. 22/12,972) Consequently, while it may be that a parcel costs 31.7 cents more per piece, utilizing exclusively the Postal Service's numbers, that parcel also earns 22.15 cents more per piece revenue for the Postal Service. (Tr. 24/12,972) The fact that parcel revenues are double those of flats is simply a function of the fact that the average parcel weighs substantially more than a

flat, 8.9 ounces versus 3.74 ounces for the regular commercial category. This means that the Postal Service has already recognized that the average parcel is more expensive to process than the average flat, due in no small part to its weight, and has taken account of that by charging a higher price for the average parcel, in fact almost twice as much. (Tr. 24/12,972)

Just what does happen if one adds a 10 cent surcharge to the average per piece revenue on a parcel in the base year? That revenue yield would be 56.45 cents per piece, 6.55 cents per piece more than the average cost of 49.9 cents per piece. In other words, a 3.45 cents surcharge would allow these parcels to cover their costs. (Tr. 24/12,973) Or, even if one concedes that Postal Service rebuttal witness McGrane is correct in claiming that it is improper to use Mr. Crum's adjustment of parcel costs without adjusting for revenues, then this would mean that the 1.4 cents per piece downward adjustment made by Mr. Jellison would not be made and the situation would be as follows: a 10 cent surcharge would produce 56.45 cents per piece versus an average cost of 51.3 cents. Under those circumstances a 5 cents surcharge would allow the parcels in the base year to cover their costs. (Tr. 24/12,973)

Although we object to lumping together all these disparate subclasses for purposes of considering this surcharge, it will be found that, even when all lumped together, the results are not too dissimilar from the results witness Jellison presents for the regular commercial subclass. On the other hand, we strongly urge that that not be done; it is perfectly evident that there is no more justification for visiting a surcharge on regular Standard A parcels because first class parcels, for example, were not covering

their costs, than there is for imposing a surcharge on Standard A parcels because the parcels of another totally separate subclass, such as ECR parcels, is not covering its costs.

And it is also evident that, if RIAA witness Andrew is correct in his claim that the Postal Service has overstated the parcel/flat cost differences by some 5.6 cents, then the regular commercial Standard A parcels are fully covering their attributable costs in the base year, eroding any basis whatsoever for a surcharge.

USPS rebuttal witness McGrane conceded that his criticism of Mr. Andrew's use of a 7.3 cents cost reduction for parcels did not apply to Mr. Jellison since Mr. Jellison had only made a 1.4 cents adjustment, although he claimed that it was equally improper to do that. (Tr. 35/18,974) Witness McGrane insisted that the proper comparison was the very comparison that witness Jellison makes in his Exhibit A which shows that there is only a 33 cents difference for the regular Standard A flats and parcels. (Tr. 35/18,976) And Mr. McGrane further agreed that, assuming that the Postal Service data that was used in Mr. Jellison's Exhibit were itself correct, then the actual difference in adjusted costs and revenues between parcels and flats in that subclass was around 11 cents. (Tr. 35/18,976) And Mr. McGrane further confirmed that, utilizing the comparison of "apples to apples" that he urged, and that Mr. Jellison carried out, the results show that the difference between costs and revenues for Standard A parcels, 51.3 cents versus 46.45 cents, left a shortfall of only 4.85 cents per piece (Tr. 35/18,977), and that a 5 cents surcharge would have produced a break-even for Standard A parcels. (Tr. 35/18,977) And furthermore Mr. McGrane had to concede

that, if RIAA witness Andrew was correct in his contention that costs had been over-attributed to parcels by 5.6 cents per piece, then that would indeed mean that in the base year Standard A parcels were covering 100% of their attributable costs. (Tr. 35/18,980) And Mr. McGrane also had to concede that he himself did not in any way rebut Mr. Andrew's contentions, and further admitting that no one from the Postal Service offered any rebuttal to witness Andrew's claims of a 3.3 cents overstatement of attribution due to an erroneous assumption of parcel density. Postal Service witness McGrane couldn't have put it any more starkly: if the Commission believes witness Andrew's critique of the costs then it means that Standard A parcels were paying 100% of their way in the base year. (Tr. 35/18,981)

The following chart illustrates the results of comparing unadjusted costs and revenues of parcels and flats and the coverage of attributable costs with no surcharge, a 5 cent, and a 10 cent surcharge.

Standard (A) Per Piece Contributions To Attributable Costs, With And Without Surcharges			
	<u>Cost Per Piece</u>	<u>Revenue Per Piece</u>	<u>Contributions To Attributable Costs</u>
1. Commercial Regular Flat	18.2¢	23.3¢	+ 6.1¢
2. Commercial Regular Parcel	51.3¢	46.45¢	-4.85¢
3. Commercial Regular Parcel with 5¢ surcharge	51.3¢	51.45¢	+ .15¢
4. Commercial Regular Parcel with 10¢ surcharge	51.3¢	56.45¢	5.15¢
5. Commercial Regular Parcel with RIAA witness Andrews Adjustment (51.3¢ minus 5.6¢) and <u>NO</u> surcharge	45.7¢	46.45¢	+ .65¢

**D. The Implicit Coverage For Standard A Flats Can Lawfully Be Greater Than The Implicit Coverage For Standard B Parcels And No Surcharge Should Be Approved Merely To Ensure That Standard A Parcels Are Implicitly Meeting A Higher Cost Coverage To Bring Them Closer To The Implicit Cost Coverage Of Standard A Flats.**

It is really not proper, nor even useful, to compare the cost coverages for one type of mail within the same rate category as another type of mail, that is, between Standard A parcels and Standard A flats, mail that shares the same rate category of Standard (A) Non-Letter Mail. In fact, the Postal Service does not even utilize cost coverage measurements for rate categories within the same class, limiting their coverage calculations solely to everything within the same subclass, in other words, all Standard A regular mail. We are aware that there are different coverages for the two rate categories within the regular commercial Standard A subclass: letters and nonletter rate categories. In fact, Standard A letters have cost coverages of 186% and nonletters 109.4%. One wonders why the Postal Service, or the Commission for that matter, would be concerned with the fact that Standard A parcels, in the same rate category as Standard A flats, would have less cost coverage than Standard A flats, and yet not be concerned about the fact that, as between the two separate rate categories, there was such a huge difference in coverage, a difference far greater than the coverage difference between Standard A parcels and flats. As witness Jellison testified, a more serious objection to singling out the relative cost coverage of parcels and flats is the rate shock that would be visited on users of Standard A parcels, with up to 50% increases that could result from the imposition of a 10 cent surcharge, solely in the name of increasing the coverage of Standard A parcels. (Tr. 24/13,044-45) In fact,



Mr. Jellison testified that if a surcharge were justified at all it would be warranted only to assure that Standard A parcels did cover their attributable costs, bearing in mind that Standard A parcels is recognized neither as a subclass nor a rate category. It is forthrightly PSA's position that types of mail within the same rate category should not be compelled to have equal implicit cost coverages; at most one would desire and work toward each type of mail covering its attributable costs. (Tr. 24/13,048) As Mr. Jellison put it succinctly: "No such rigorous attempt has ever been made to ferret out every single one of such types of mail to be surcharged. It is contrary to the cost averaging of different types of mail matter that are confined within a rate category or a subclass." (Tr. 24/13,048)

## **PROPOSED FINDINGS AND CONCLUSIONS**

1. With the exception of the nonpriority Alaska air transportation costs, the Commission finds that the costs for parcel post developed by the Postal Service in this proceeding are accurate and adopts them.
2. The Commission finds that the Postal Service's estimates of cost avoidance that will be generated by the new proposed barcoding discounts and the drop shipping discounts are within a reasonable range for a new service, and that it will be in the interests of the parcel shipping public and in the overall interests of competition to recommend their adoption.
3. The Commission also finds that there is no justification for denying the barcode discount to Standard A parcels and recommends the adoption of a 4 cents discount for both Standard A and Standard B parcels.
4. The Commission reiterates its previous findings in several proceedings that the portion of Alaska nonpriority air costs which it has previously ruled are nonattributable to parcel post are not in this case attributable and that \$77,609,000 of costs attributed to parcel post for that reason must be removed.
5. With the removal of the nonpriority air costs, the Commission finds that TYBR parcel post rates are producing sufficient revenues to earn 104% cost coverage, a cost coverage target which the Postal Service itself has recommended, and with which we agree. Therefore, no overall rate increase is needed to reach the USPS coverage target. In no event does the Commission recommend overall parcel post

increases greater than the systemwide average increase the Commission is recommending in this case.

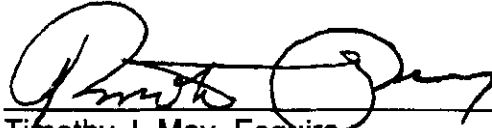
6. The Commission finds that it is not proper to combine all the different subclasses containing Standard A parcels and flats into one for purposes of determining whether there is a sufficient parcel/flat cost/revenue gap to warrant a surcharge. The Commission further finds that, utilizing the Postal Service's own data as produced in USPS witness Crum's Exhibit K, while parcels are shown to be substantially more costly to process than are flats, at the same time parcels are also shown to produce twice as much revenue per piece as do flats in the commercial regular Standard A subclass. Moreover, that same data shows that, again utilizing Postal Service numbers entirely, revenues fail to meet attributable costs for Standard A parcels by less than 5 cents per piece.

7. The Commission agrees that the Postal Service has overestimated the cost difference between parcels and flats as outlined in the testimony of RIAA witness Andrew. Reducing parcel costs by the 5.6 cents overstatement of attributable cost as identified by witness Andrew, the Commission finds that during the base year Standard A parcels fully covered their attributable costs in the regular commercial Standard A subclass.

8. The Commission concludes that it would be improper to require mail within the same rate category to meet exactly the same implicit cost coverages and as a matter of policy finds that such an approach is utterly contrary to the necessary cost averaging that occurs not only within subclasses but particularly within rate categories.

Consequently, since the Commission finds that regular commercial Standard A parcels are fully covering their attributable costs it refuses to recommend a surcharge of any amount for Standard A parcels, merely so that the implicit coverage for those parcels would be closer to the implicit coverage for Standard A flats.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Timothy J. May', is written over a horizontal line.

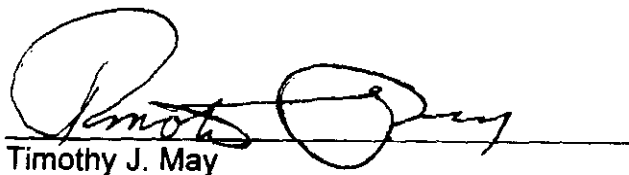
Timothy J. May, Esquire  
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Counsel for Parcel Shippers Association

Dated: April 1, 1998

### CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: April 1, 1998